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Israel

Retail Foods

Israel's Retail Food Sector

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Report Highlights:

As a net food importer, Israel represents a growth market for U.S. dried and fresh fruits, prepared food products also have potential. The Israeli population reached 7.7 million in 2011. Factors that favor US exports include: the current exchange rate between the U.S. dollar and the Euro, which continues to favor U.S. sales, the expected 4.7 and 3.2 percent GDP growth for Israel in 2011, 2012, respectively, and the Agreement on Trade in Agricultural Products (ATAP) between the U.S. and Israel, all offer opportunities for American agricultural and food product exports to Israel. Israeli agricultural and food imports for the first 10 months of 2011 reached \$4.55 billion, up 27 percent from the same period one year ago. Food and beverage products account for nearly 40 percent of imports. Data for the first ten months of CY 2011 shows that food imports from the U.S. increased by 13 percent from the same period one year ago (or from \$135 million to \$152 million).

Post:
Tel Aviv

Section I: Market Summary

Economic and Demographic Situation

Israel is a parliamentary democracy of 7.7 million people, of which, 75 percent are Jews (5.8 million) and 20 percent Arab Muslims. Israel hosts 200,000 foreign guest workers from Southeast Asia. The foreign workers mainly work in the agricultural sector and with the elderly, two

sectors the Israelis don't want to work in. Annual population growth is 1.8 percent.

Israel's economy is in better shape today than in 2010, as well as vastly improved compared to 2009.

The economy benefitted from the global economic recovery growing by 4.5 percent in 2010. The Bank of Israel is forecasting a 4.7 percent GDP growth in 2011 and a slower GDP growth of 3.2 percent in 2012.

During the period of May to August 2011, the growth rate has slowed down in addition to increasing the economic uncertainty. This occurred against the background of the debt crises in Europe, volatility in the financial markets, the fear of a major slowdown in global growth, continuing geopolitical instability in our region and the effects of the social protests in Israel.

In addition, the OECD commented that Israel will probably avoid a recession, but the weakening external demand is nevertheless prompting a slowdown in output growth that is unlikely to reverse until the middle of 2012.

In its Economic Outlook, the OECD predicts that Israel's GDP growth rate will slow from 4.7 percent in

2011 to 2.9 percent in 2012, and rebound to 3.9 percent in 2013.

With a GDP of \$200 billion and a GDP per capita of \$30,000, Israel is on par with EU member states

Greece and Portugal. Prior to the global economic recession (2008-09), Israel grew at an annual rate of 5 percent. Growth almost halted during the crisis, leading to a spike in unemployment. Israel's unemployment rate declined to 5.5 percent in the second quarter of 2011, the lowest level since

1985 as the economy expanded.

Unemployment averaged 6.7 percent (2010), below the Organization for Economic Cooperation and

Development (OECD) average of 8.3 percent. Between 1992 and 2010, Israel's unemployment level

averaged 8.6 percent.

The main economic challenges confronting Israel are: 1) uncertainty regarding the impact of U.S. and

European states fiscal deficits on global economic growth and its effect on foreign demand for Israeli

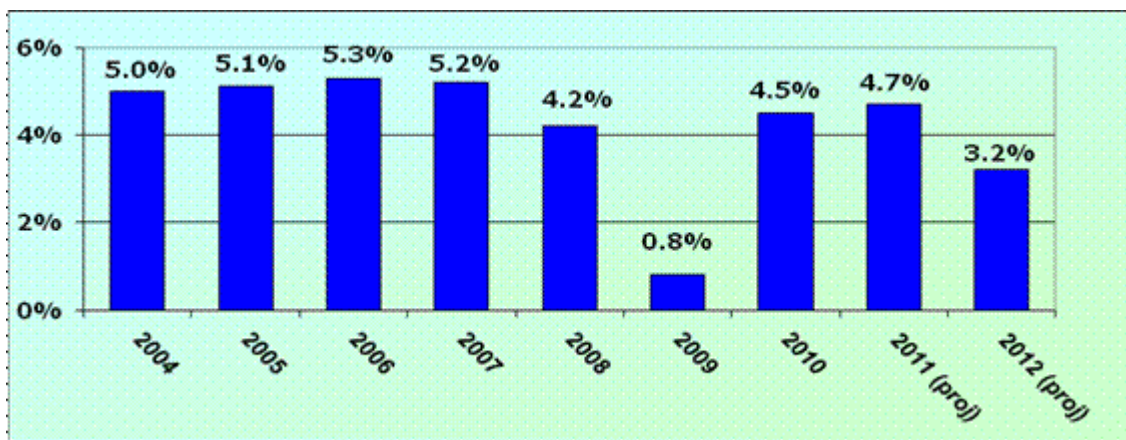
Exports 2) inflation's upward trend pushing up commodity prices.

Sociopolitical unrest in the MENA region highlights the importance of Israel as a stable democracy and

technologically advanced market economy. Nevertheless, financial markets are increasing Israel's country risk rating due to continued regional uncertainty.

Israel's economic policy combines responsible budgetary policy with credible and consistent monetary policy. It aims to ensure economic stability through price stability.

Chart 1: GDP, Annual Growth Rate, Israel



Source: Bank of Israel

Israel's main industrial sectors include electronics, chemicals, machinery, metal, plastics and rubber.

Inflation: The Bank of Israel forecasts a 2.6 percent inflation rate in 2011. Inflation may gradually inch upwards to 3.3 percent during the last quarter. Inflation in Israel derives from developments abroad and the valuation of the local housing market. Rising commodity prices will boost inflation worldwide, resulting in higher energy and food costs. Inflation reached 2.7 percent in 2010, remaining well within the price stability target range. Excluding the housing sector, inflation increased by 1.9 percent in 2010.

Food Prices: Food prices in Israel increased more than in other countries. The higher increase in

Israeli

food prices compared to other countries in mainly due to lack in competition in Israel, which increases

the intermediate gap. Food prices were the main reason for the social unrest during the summer of 2011.

Global agricultural commodity prices increased by an average of 53 percent in 2010 compared to 2009.

This suggests that food prices in Israel will again increase. The last time agricultural commodity prices

rose this sharply was in May 2008, when they increased by 54 percent. Four months later, food prices in

Israel increased by 13.4 percent.

Aggressive competition between Israeli retail chains, combined with favorable exchange rates, allowed

Israel's food prices in 2008 to rise slower than the increase in agricultural commodity prices.

For example, Shufersal, Israel's largest retailer, converted some of its stores into discount Deal branches

in order to keep prices low.

Foreign Exchange Rates: In 2010, the New Israeli Sheckel (NIS) strengthened against the U.S. dollar

By 5.3 percent, and by 10.4 percent against the Euro. Compared to the British pound, the NIS rose by

6.4 percent.

The 2010 average exchange rate of the U.S. dollar was NIS 3.733 (NIS 3.932 in 2009); while the average exchange rate for the euro was 4.953. In 2010, the U.S. dollar strengthened in comparison to

the euro by 4.8 percent and by 1 percent compared to the British pound.

Chart 2: U.S. Dollar to Israeli Shekel Exchange Rate

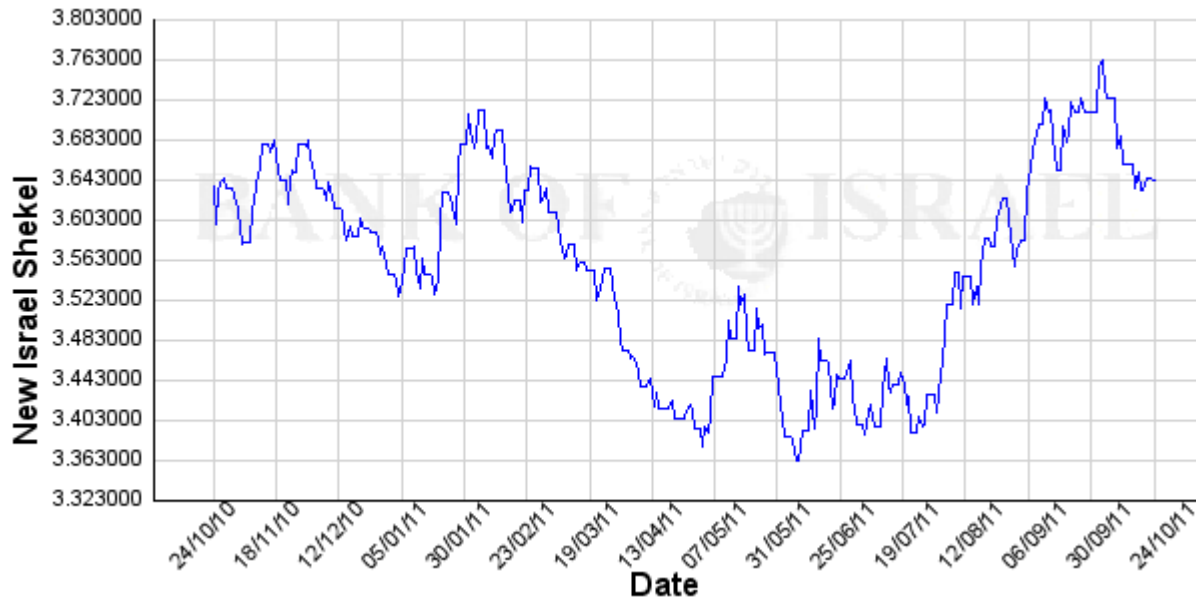
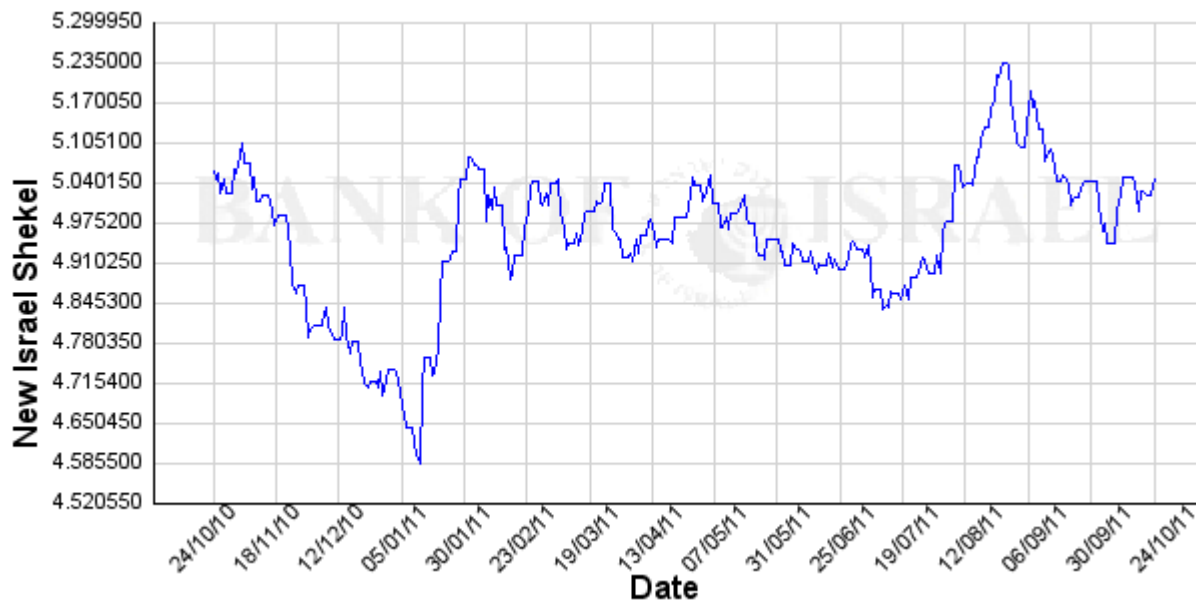


Chart 3: Euro to Israeli Shekel Exchange Rate



Trajtenberg Committee Report Likely to Enhance Export Opportunities

Starting July 2011 through October 2011, hundreds of thousands of Israelis, mainly middle class, protested against the government, demanding improved standards and quality of life. It is

common

wisdom in Israel that the middle class carries most of the economic, social and security burdens, while other sectors, who gained political power during the last two decades are reaping benefits granted by the state at the expense of the middle class and others. According to the OECD, Israel has the second highest income to poverty rate in the OECD after Mexico, and is well above the OECD average of 11.1%. 39% of Israelis find it difficult or very difficult to live on their current income, well above the OECD average of 24%.

The protest started in June 2011 with the "cottage cheese protest", in which the consumers boycotted cottage cheese after it was found that the price was raised significantly by the dairy companies and the retail chains with no justification.

The second sector, that followed the "cottage protest" was the housing renters, who claim that rentals and housing in Israel became unaffordable to most of the young, even those who earn higher than average salaries. The housing protesters established tent camps all over the country – the biggest in Tel Aviv with more than 1,000 tents.

The main outcome of the protests was the seating of a committee that has been established as response to the social protests in Israel, the Trajtenberg Committee.

The Trajtenberg committee presented its recommendations to Prime Minister Benjamin Netanyahu on September 26, 2011, and on October 9th, the Israeli Government approved the report.

The Trajtenberg report is 267-pages long, and outlines a wide array of policy recommendations in 4

main areas:

- Housing,
- Lack of Competition, as a result of a few companies that control the Israeli market in almost every sector, including the food sector, combined with high import tariffs.
- Cost of living (includes local food and agricultural markets)
- Social services
- Taxation

These recommendations are expected to bring significant change in the economic agenda of Israel in the coming years, including a reduction of the trade barriers in place for imported food and agricultural products.

Prime Minister (PM) Netanyahu referred to the Trajtenberg Report as follows: "Approval of the

report will allow lowering the cost of living, substantially easing parental education spending and lowering the value of properties. My government is committed to taking the necessary actions for Israeli citizens to lower their cost of living."

Trajtenberg and Custom Tariff Policy

According to the government's decision of Sunday, October 27, 2011, in January 2012 custom tariffs and purchase tax will be removed from a list of imported industrial products that have no competition from local production, i.e. washing machines, air conditioners, electronics and raw materials for the local industry. The progression to a second stage that will involve industrial products that are locally produced depends on the GOI's success in signing further new Free Trade Agreements (FTA). If the GOI succeeds in signing additional significant FTA's the custom tariff will be reduced by 15% each year until 2017, when custom tariffs will drop to 0%. If the GOI fails to sign additional FTA's, the tariff will be reduced by 25% in January 2012, by 15% in January 2013 and another 15% in January 2014. The reduction will total 50%. According to the decision the remaining 50% may be eliminated in two parts, according to the Treasury's decision. The government, which is under heavy pressure from the agriculture lobby, made no decisions regarding food products taxation and is still awaiting the second committee's recommendations (Kedmi) which are scheduled to deliver its recommendations in March 2012. The expected improvements for food products in the near future will focus on expanded Tariff Rate Quotas (TRQ) for a selected list of products. The list of processed food products and agricultural products that will benefit from the recent approval of the Trajtenberg Report has not yet been approved. Post expects that GOI will publish the list of approved products within the next few months.

In addition, it is estimated that due to the recent approval of the Trajtenberg report, some Sanitary and Sanitary Phyto-Sanitary (SPS) and Technical Barriers to Trade (TBT) issues in the import of processed food products and agricultural products into Israel will be eased, making it easier for American exporters to enter the Israeli food and agricultural market and lowering costs to consumers.

Food prices, including staples, have become a flash point. Here and elsewhere, the answer lies in competition from imports, states the Trajtenberg Committee.

Privately owned monopolies that do most of their business within Israel must be forced to publish financial statements like publicly traded companies, determined the panel. This would force fresh-foods

giant Tnuva (among others) to reveal its financials, if the government accepts the idea. Tnuva is controlled by the international investment fund Apax Partners, which has been adamant that the company, which owns the biggest dairy in Israel, keeps its figures confidential. Tnuva was also a trigger behind the "social protest," which began when the company (and its two main rivals) raised the price of cottage cheese once too often.

The Committee states that the food industry is the sector with the least competition. In 2010, the two big players, Super-Sol and Blue Square, controlled 60 percent of the retail sector in terms of revenues and number of stores. The committee found that food prices continued to increase even as discount chains grew.

1. Retail Food Sector

As a result of the continued improved economic activity in 2010, both globally and in Israel, combined with the continued increase in food prices, the total retail food market in 2010 was valued at \$15 billion (according to the Central Bureau of Statistics), a 2.5 percent increase from the previous year, of which 62 percent represented the organized market (food retail chains, minimarkets and drugstores), and the rest (\$5.7 billion) belonged to the less unorganized market (open markets, grocery stores and kiosks).

Israel's organized retail food sector is dominated by two retailers, with Shufersal leading the pack with an estimated market share of 40 percent compared to Blue Square's 20 percent market share. Both retailers have stores in the four market segments; hypermarket, supermarket, convenience and discount. Their strength and size has effectively kept out competitors from leading international retail food chains that would otherwise have entered the Israeli market, particularly given consumer spending power and western tastes and preferences. However, it is also true that a relative lack of growth opportunities is another reason why foreign retailers have not been too interested in Israel. Israel's food retail industry, like most of its consumer industry, is quite mature. Growth opportunities are unlikely to be dynamic, with incomes quite high and so much of the population (about 7.7 million) already under the umbrella of organized retail. Thru 2015, it is estimated that the retail food sector sales will grow at a compound annual rate of about 2.5 percent, which reflects how developed the industry has become.

The leading organized retail chain in Israel with a market share of 40 percent is Shufersal, operating over 240 stores nationwide and employing over 11,000 people. Their physical store area totals 520,000 m².

Shufersal store area grew by 2 percent compared to 2009, while Blue-Square store area grew by only 1 percent.

On the other hand, in recent years the other private retail chains (discounters) have increased their sales significantly and increased their store area as well, this is one of the main reasons that the store area for both Shufersal and Blue-Square grew by only 1-2 percent in 2010.

The fact that consumers are still looking for ways to reduce expenses is boosting sales within discounters.

As a result, retail value sales in discounters increased significantly in 2010 on the account of the other formats such as hypermarkets and supermarkets.

As mentioned above, price remained more important than shopping experience during 2010. Price wars amongst retailers were more intense than ever involving both grocery and non-grocery items.

According to industry experts, an estimated 70 percent of grocery retail marketing budgets went towards advertising sales, discounts, price surveys and sales promotions in 2010. The retail food sector in Israel is characterized by a wide range of food products.

About 3,000 new products are being introduced into the local food market annually. Nearly 70 percent of the consumers prefer to buy Kosher certified food products.

In addition to the retail chains, there are approximately 5,500 grocery stores and 1,500 minimarkets in

Israel. Due to intense competition in the Israeli food sector, the grocery stores and minimarkets are operating at very small profit margins. More than 200 convenience stores, which are open 24 hours, were established in recent years.

Super Stores and Supermarkets - Out of the total organized retail food market value (\$9 billion), about 55 percent (\$5 billion) belonged to the two major retail food-marketing chains (Shufersal and Blue Square). In recent years the trend in Israel is "hard discount" supermarkets.

In recent years there is a trend by the two biggest retail chains to develop a supermarket neighborhood format, which is characterized by a higher profitability rate. These formats are smaller supermarkets,

which are located in the neighborhoods.

In the last three years Blue-Square increased the number of stores in this neighborhood format

("Mega in Town") from 98 stores to 121 stores. This process includes the adaption of the stores to their locations and the population.

In the next two years Blue Square will open approximately 30 stores with a total area of approximately 27 thousand square meters, 25 of which will be in the "Mega in Town" format.

In 2010 and 2011, Shufersal and Blue Square have opened organic food sections in their supermarkets.

Organic food sales are relatively small and it's estimated at about 1 percent of total retail food sales.

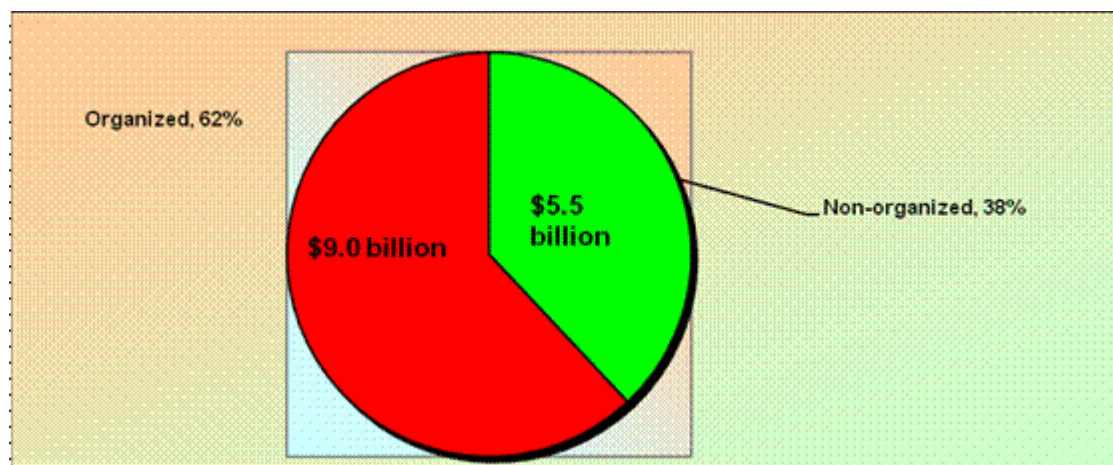
- **Private Label** - Israel's private label market is relatively small compared to European countries but it's growing. In 2010, an average of about 7 percent of food products sales in the stores were private label, compared to about 5 percent in 2008. The two largest local supermarket chains dominate the private label market of which Shufersal has the largest private label category. Both Shufersal and Blue Square launched their private labels about six years ago and both of them have the largest local food private labels. Currently Shufersal and Blue Square have about 1,400 private label products (food and non-food products) and about 10 percent of their sales are private label. They are aiming for levels similar to European benchmarks of 20 to 40 percent.
- In an attempt to combat the growing strength of the Shufersal and Blue Square supermarket groups, in 2007 a group of seven private chains launched a joint house brand named The Fourth Chain together they constitute the fastest-growing force in the Israeli retail sector in and in 2010 their new label "HaMutag" ("The Brand", in Hebrew) had sales of \$59 million with over than 600 products introduced during 2010.
- As a result of the socioeconomic protests this summer, which sent hundreds of thousands of Israelis into the streets to demonstrate against the high cost of living, The Fourth Chain is establishing a private-label brand of dairy to compete with the dairy giants Tnuva (Tnuva controls 70 percent of the dairy market), Strauss and Tara - and will sell dairy products at 15-25 percent lower price. The Fourth Chain plans to launch their private-label dairy products in the first quarter of 2012. The first stage will include a local dairy called "Hamoshava" producing 16 types of white cheese from cow and sheep milk. In the 2nd stage, scheduled for the second quarter of 2012, the stores intend to sell "HaMutag" yellow cheeses, imported by two companies, Willi Food, which will bring cheeses from western Europe, mainly Denmark, and A. Seyman Trade Company that will bring cheese from France.

Grocery Stores and Minimarkets - There are approximately 7,000 grocery stores and minimarkets in

Israel. Due to intense competition in the Israeli food sector, the grocery stores and minimarkets are operating at a very small profit margin, making it a high risk sector.

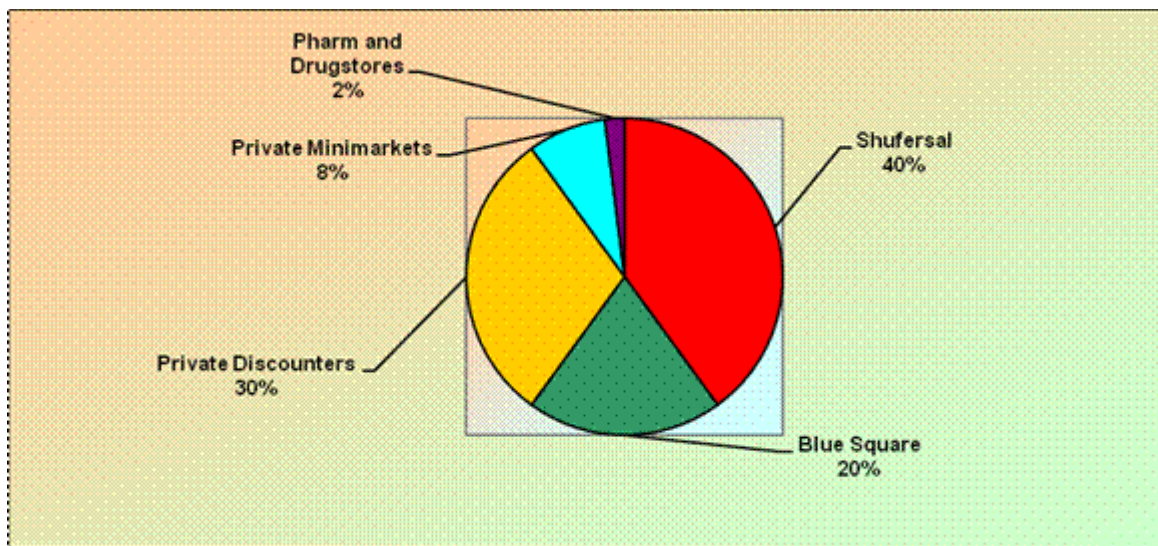
Convenience Stores – There are more than 600 convenience stores at gas stations, train stations and hospitals which are open 24 hours and were established in recent years. The largest players in this category are Paz Company with its “Yellow” chain (220 stores), Delek with its “Menta” chain (150 stores), and Sonol company with its “Sogood” chain (140 stores).

Chart 4: Israeli Retail Food Market, 2010



Source: AC Nielsen, Shufersal estimates

Chart 5: The Organized Local Retail Food Market, Market Share, 2010



Source: AC Nielsen, Shufersal estimates

Consumer Buying and Eating Habits

Main Facts:

- Annual household consumption expenditures in 2010 totaled \$ 3,780 (3.7% up from 2009), of which 16.3% (\$,151) was directed to food purchases (for many years household expenditure for food totaled 13% only).
- Where do they buy food? 58% - Supermarket chains, 16% - Grocery stores, 5% - open markets, and 21% - other shops.
- The Israeli shopper expects to receive the highest-quality products at attractive prices.
- 66% of the Jewish sector buys food products through supermarket chains, while only 11% of the Arab sector buys products through supermarket chains.
- Nearly 70% of consumers prefer kosher food products.
- 1.4 million (19%) Israelis are above age of 50, and 2.1 million (28.7%) Israelis are under the age of 14. The average household size is 3.7 people.
- Israelis are quality oriented and are ready to pay a premium for quality food products.
- Shoppers are eating out more frequently and in 2010 they spent more than \$2.8 billion on food away from home.

Table 1: Food- Household Purchase by Outlet Type - % of Total Expenditure (Excl. Meals Away From Home), 2010

	Grocery Stores	Open Markets	Supermarket Chains	Others
Food - Total	16.3	4.8	58.2	20.7
Bread, Cereals and Pastry Products	19.5	5	58.9	20.1
Meat, Poultry and Fish	8.9	2.6	9	39.6
Soft Drinks	0	1.1		9.5
Fresh Fruits and Vegetables	5.8	20.1	6.3	27.8
Dried Fruit	16.8	13.3	55.1	14.8

Source: Household Expenditure Survey, 2010, CBS.

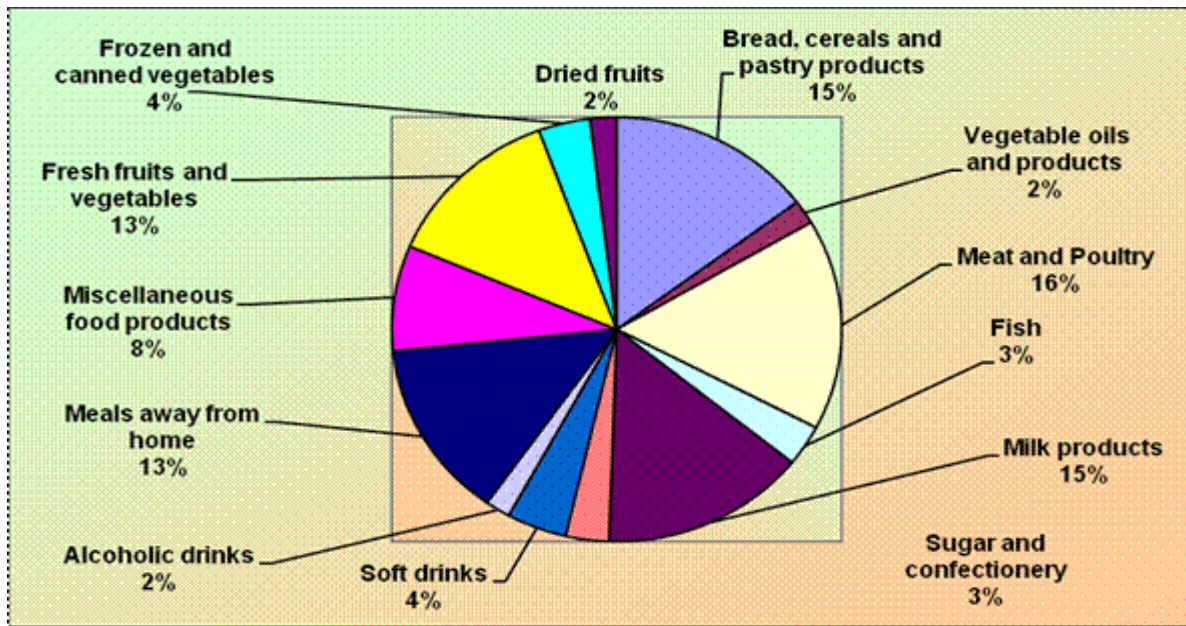
During the last decade, a growing share of consumers preferred to buy their products through supermarket chains (58%) instead of through the traditional channels of open markets and small grocery stores.

On-line Food Sales - Food sales through the internet are relatively small and it's estimated that about 1 percent of retail food sales (organized market) are made through the internet. Online sales

are dominated by the two largest retail food chains (Shufersal and Blue Square). Apart from the two largest retail chains, no other supermarket chain in Israel operates in the online retail food market.

This is because the costs and complexity of establishing an online service appears to be too much of a risk. Post estimates that food sales through the internet are not expected to increase significantly in the forthcoming years.

Chart 6: Spending on Food, by Category, 2010



Source: Household Expenditure Survey, 2010, CBS.

Table 2: Opportunities and Challenges for U.S. Exporters to Israel

Opportunities	Threats
<p>In 2010, and 2011 Israel's economy remained strong, boosting demand for agriculture products. Economic growth in 2011 and 2012 is expected at 4.7 and 3.2 percent, respectively.</p>	<p>The security situation in Israel and in the region remains precarious.</p> <p>Continued concerns about the economic situation in Europe and the US, may impact the economic growth in Israel.</p>
<p>The recent approval of the Trajtenberg Report by the Israeli Government will allow lower import tariffs on some processed food products and agricultural products as well. In addition, some current Tariff Rate Quotas (TRQ) will likely be increased. It is expected that some new food and agricultural items will be added as TRQs. The actual list of processed food products and agricultural products has not yet been approved. Post expects that the GOI will publish the list within the next few months. All in all, more opportunities for imported food and agricultural products are expected to be available in the near future.</p> <p>The current exchange rate of the U.S. dollar versus the Euro continues to favor U.S. sales.</p>	<p>Growing competition from Eastern Europe, the Former Soviet Union, Turkey, South America and the Far East. Some sectors generally import from nearby countries.</p>
<p>The standard of living in Israel is expanding rapidly, increasing the demand for high quality food products.</p>	<p>Israel is increasingly adopting EU standards and requirements on imports.</p>
<p>Israel's and Palestine's economies are interlinked. U.S. exporters can use Israel as a gate to the Palestinian market with its rapidly growing population and potential increase in standard of living in the coming years.</p> <p>In 2009, the GDP growth rate of the West Bank totaled 7.2 percent. In addition, the Palestinian economy in the West Bank is estimated to have grown 9 percent in the first half of 2010, according to the International Monetary Fund.</p>	<p>U.S. suppliers lack knowledge of the Israeli and Palestinian markets and its opportunities.</p>
<p>High consumer interest in new food products. About 3,000 new products are being introduced into the local food market annually</p>	<p>Import requirements can be quite strict, and new-to-market products are sometimes detained at port.</p>

Negotiations on the Agreement on Trade in Agricultural Products (ATAP) will continue in 2012.	<p>Israel is unlikely to agree to the U.S. request for a complete phase-out in tariffs.</p> <p>New agricultural agreement was signed between Israel and the EU in November 2009, resulting in greater market access on both sides.</p> <p>India and Israel are presently working towards signing an FTA.</p>
The Israeli consumer is knowledgeable of American products, and is receptive to additional information.	Kosher requirements are becoming increasingly strict and consumers require high-level kosher certification for their food products.
Increasing water shortages in Israel afford the U.S. an opportunity for increased exports of U.S. agricultural products.	Israel has a strong domestic food processing manufacturing system. EU agricultural and food products are very competitive because of proximity and an increased trend toward sharing common standards.
Israeli agriculture is particularly vulnerable to climate change, and will therefore be more reliant on imports.	
Israel is a net food importer. Israel is highly dependent on grain and oilseed imports.	
There is a continued growth in the number of food stores (supermarkets, grocery stores, 24-hour convenience stores), and restaurants.	

Section II: Road Map for Market Entry

A. Entry Strategy

U.S. food exporters should focus on establishing their business relationship with a reliable and efficient importer or distributor first. Identifying the appropriate distribution and sales channels is second. U.S. exporters and Israeli importers could expand trade if confidence between them could be strengthened. Confidence could be strengthened, by visits of U.S. exporters/manufacturers to Israel to explore opportunities firsthand and meet with Israeli importers who handle their types of products. USDA-FAS will organize groups of U.S. food exporters to visit Israeli food shows and food conventions.

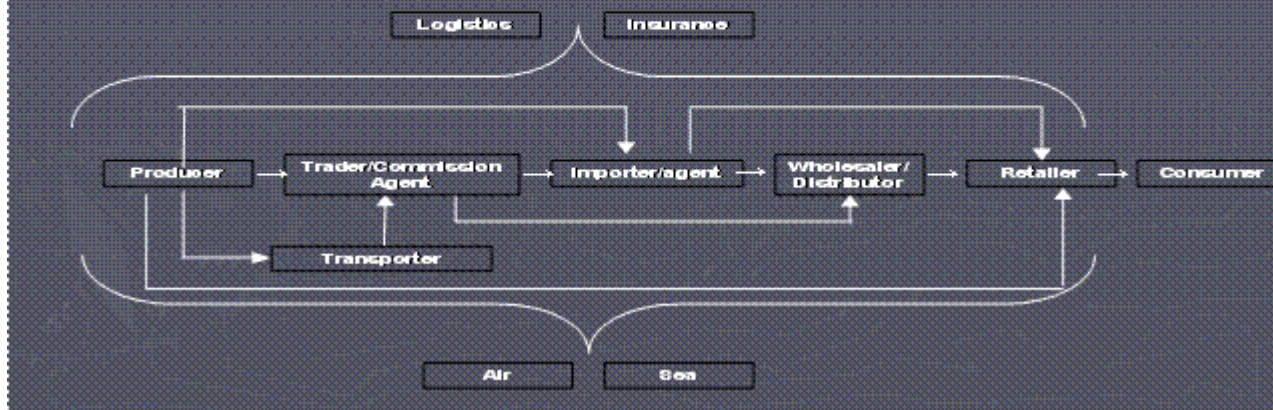
Large food retail chains like Shufersal and Blue Square have their own purchasing/importing divisions to handle food imports directly. Major supermarkets are increasingly importing directly from foreign suppliers in order to reduce costs. U.S. suppliers should initially contact the purchasing/importing divisions of these large food chains, especially for new-to-market food products. A listing of contacts for Israel's major food supermarkets is available from the FAS Tel-Aviv Office upon request. U.S. exporters should consider the price sensitivities of their customers, their product requirements, purchasing policies and expected purchase volumes.

Additional Entry Options:

- Direct marketing (phone/video calls, emails, meetings)
- Direct marketing is common also through mail order booklets.
- Telephone marketing is increasingly common, but with mixed results.
- The Internet is widely used in Israel, and an increasing direct marketing avenue.

Chart 7: Distribution Channel

Food and Beverages Supply Chain, Israel



B. Market Requirements

Kosher: Except for meat, kosher certification is not an obligatory requirement for importing food into Israel. However, non-kosher products have a much smaller market share as the large supermarket chains and hotels refuse to carry them. In addition, in recent years kosher requirements are becoming increasingly strict as the Israeli consumers require high-level kosher certification for their food products ("Mehadrin").

Food Standards and Labeling Requirements: In some cases Israeli food standards and labeling requirements are different from those in the U.S. and are similar to the EU standards. The Food Control Service (FCS), with the Ministry of Health, strictly enforces food regulations in the Israeli ports.

Therefore, exporters intending to export to the Israeli market must be familiar with Israeli regulations and adjust to their requirements.

FAIRS Report: See Gain Report IS1106 – FAIRS Country Report

In the current report the following sections have been updated:

- Heavy Metals in Foodstuffs - The Israeli Ministry of Health have increased monitoring on imported food products in recent months (page 15).
- The maximum limits of the following food color additives E1520, E1518, and E1505 were changed (page 11).

- Import Procedure paragraph was modified (page 22-26).
- New requirements for the export of pet food from the United States to Israel (page 31).
- Inspection of Animal Feed paragraph was modified (page 35-39).
- Fish and Fish Products Import and Distribution system (page 43-47).

[http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20and%20Agricultural%20Import%20Regulations%20and%20Standards%20-%20Narrative Tel%20Aviv Israel 8-16-2011.pdf](http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20and%20Agricultural%20Import%20Regulations%20and%20Standards%20-%20Narrative%20Tel%20Aviv%20Israel%208-16-2011.pdf)

C. Market Structure

- Two supermarket chains dominate Israeli food retailing, and the rest belongs to other private supermarket chains, minimarkets, drugstores and convenience stores.
 - * Most of them buy only kosher food products.
 - * The large supermarkets chains import themselves directly and also buy from importers/wholesalers. Others, usually buy only through importers/wholesalers.
- Food Importers – there are about 300 importers. They buy kosher and non kosher food products.

Table 3: The Two Major Chains, CY 2010

Chain	No. of Stores	Turnover in 2010
Shufersal - Israel's leading retail chain	248	\$3.0 billion
Blue Square Coop	206	\$2.0 billion
Group Total	454	\$5 billion

Source: Company's websites.

D. Sector Trends

- As a result of the recent social protests in Israel, retail food product prices were cut and further reductions were implemented by local food companies.
- Price remained more important than shopping experience during 2010, price wars amongst retailers were more intense than ever affecting both grocery and non-grocery items.
- In recent years there is a trend by the two biggest retail chains to develop a supermarket neighborhood format, which is characterized by a higher profitability rate. These formats call for smaller supermarkets that are located in the neighborhoods.
- In recent years the trend in Israel is "hard discount" supermarkets.
- Demand for healthy/natural foods is increasing; organic food, reduced fat, lower salt, low in sugar, more grains and fibers or products that contain added vitamins, probiotics and health benefits. Niche products that target a specific health issues i.e. diabetes, celiac disease, gluten free food.
- Increased consumption of non-alcoholic and alcoholic drinks (mainly beer and spirits).
- Continued adoption of private labels to lower retail prices, guarantee quality and increase customer loyalty.
- After several recent food safety scandals, food safety has also become increasingly important to Israeli consumers.
- As a result of the increasing number of women in the workforce, there is an increasing demand for nutritional ready-to-eat meals and other foods that have a low preparation time.
- Pet food and pet care products in Israel saw positive growth rates in recent years. The strongest trend in the pet food market has been the establishment of premium and super-premium price brands. Imported products account for 50 percent of value sales. The number of Israeli households that have a pet is expected to grow. Awareness of pets' health and their well-being is steadily increasing in Israel and will lead to a higher volume of sales of pet foods, mainly the premium brands and pet care products.

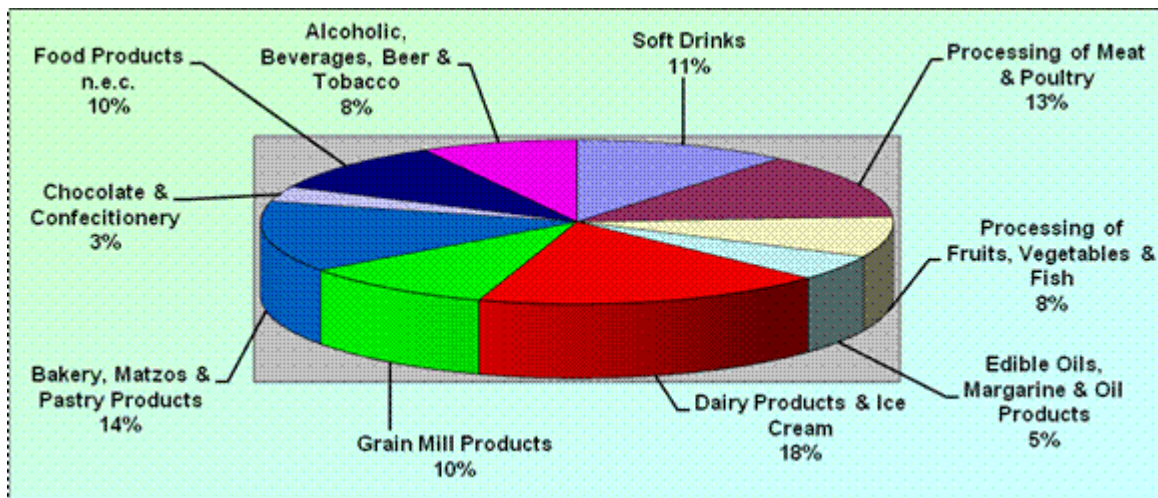
Section III – Competition

Domestic and EU suppliers are the main competitors for US exporters.

Israel Food Processing Industry

As a result of the continued improved economic activity in 2010 and 2011, both globally and in Israel, the food and drink industry turnover increased by about 2 percent in 2010 compared to 2009, and is expected to grow by about 1.5 percent in 2011. The local food and drink industry is one of the largest manufacturing industries in Israel, with a turnover of \$15.4 billion in 2010. As a result of the improved and projected global economic situation the expected local HRI market growth rate in the next few years is 2-3 percent annually.

Chart 8: Food Processing Industry Value, by Sub-Sectors, Percent, CY 2010



Source: The Food Industries Association, Manufactures' Association of Israel

Trade and the Market for U.S. Products and Services

Israel joined the World Trade Organization (WTO) in 1995. Israel supports the liberalization of international trade, investments and world markets. It believes that these play a vital role in ensuring global economic growth, stability and increase in welfare. Israel is committed to the multilateral trading system, its core principles and to the Doha Development Agenda.

Israel's implementation of the Uruguay Round Agreement on Agriculture has made it a more transparent

and open trade partner. However, Israel's agricultural products' tariff profile is uneven. It maintains very high, sometimes prohibitive tariffs for sensitive products such as dairy, meat, eggs and some fruits and vegetables. Israel at the same also has low tariffs, or even duty-free entry, for commodities such as coarse grains and oilseeds. The simple average most-favored-nation (MFN) tariff for agriculture is about three times higher than that for non-agricultural products. The OECD recommends that Israel should further reduce agricultural trade barriers and simplify its highly complex tariff profile. The GOI is reluctant to increase competition in the food market by reduction of custom tariffs for a list of imported food products, as recommended by the Trajtenberg and the Kedmi committees. In its December 18th, 2011 meeting the Israeli Cabinet approved a list of steps to increase competition in Israeli markets but denied the recommendation to increase competition by easing the importing procedures for food products (reducing custom tariffs, reducing the ability of the Standard Institute of Israel to use standards as barriers to trade).

Overview of Israel's Two Main Free Trade Agreements:

1. **Agreement on Trade in Agricultural Products between the U.S. and Israel:** In 1996, the United States and Israel signed a five-year Agreement on Trade in Agricultural Products (ATAP), which permits Israel to protect a number of sensitive crops and livestock products through a combination of tariff rate quotas and relatively high duties. In 2004, the agreement was extended until 2008. Negotiations on the next extension started in February 2008. The new agreement has yet to be signed. Both countries have agreed to extend year-by-year the current agreement until a new one is signed, the target date is the end of 2012.
1. **Israel-EU, FTA Agreement on Agricultural Products and Processed Food Products:** In November 2009 Israel and the European Commission signed a renewed and expanded FTA on agricultural products and processed food products. Under the proposed framework of the agreement, 97 percent of processed foods, imported and exported, are exempt from levies and quotas. Israel exports 75 percent of its fresh and processed agricultural products to the EU market. The agreement came into effect in January 2010.

Israel's import of agricultural commodities and food products in 2010 totaled \$4.3 billion, up \$650 million or 18 percent compared to the previous year. Improving global economic conditions is driving renewed Israeli demand for imports of food and beverage products, which account for \$1.83 billion or 42 percent of its agricultural and food products imports. United States exporters continued to benefit through

2010

from a weak dollar that along with improved economic growth in Israel, stimulated Israeli demand for

U.S. agricultural and food products imports. These imports reached approximately \$534 million, growing by 27 percent compared to 2009 levels. Similar imports from the EU increased at a slower

pace of 11 percent, exceeding \$1.68 billion by value.

CY 2011 - As a result of the continued improved economic activity in 2010 and 2011 in Israel, total

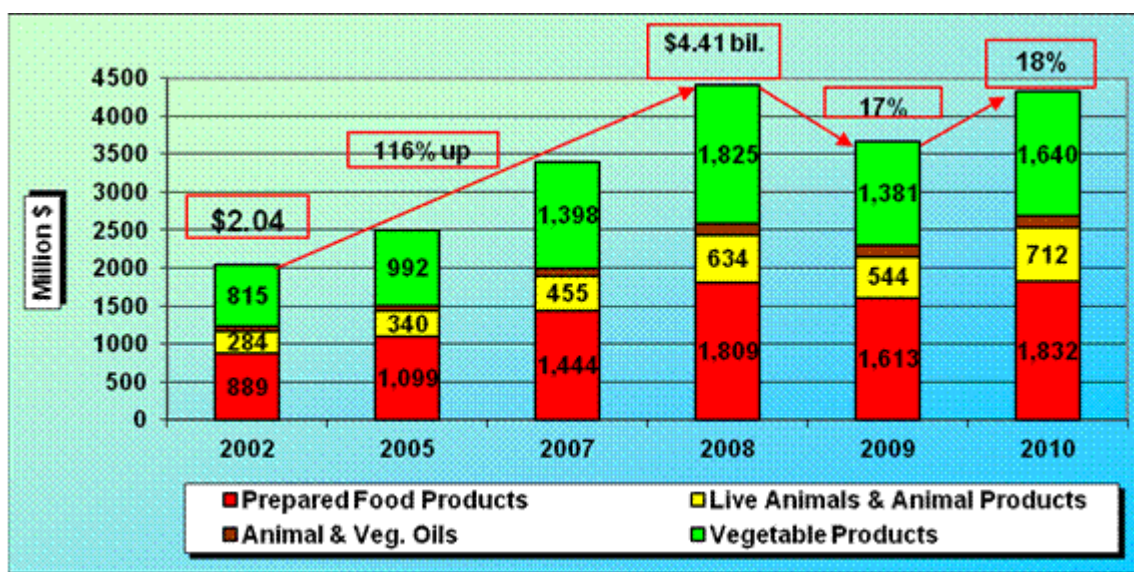
Agricultural and food imports for the first 10 months of 2011 reached \$4.55 billion, up 27 percent from

the same period one year ago. Food and beverage products account for nearly 40 percent of imports.

Data for the first ten months of CY 2011 shows that food and beverages imports from the U.S. increased

by 13 percent from the same period one year ago (from \$135 million to \$152 million).

Chart 9: Israeli Imports of Agricultural, Processed Foods and Beverages Products



Source: Central Bureau of Statistics

Table 4: Trend in Israeli Imports of Agricultural and Food Products, \$ Million, CY

	Total			US			EU		
	2002	2009	2010	2002	2009	2010	2002	2009	2010
Live animals	284	544	712	13	15	29	50	115	188
Vegetable products	815	1,381	1,640	327	263	346	208	448	481
Animal & Veg. oils	56	137	142	9	4	3	24	61	59
Prepared foods	889	1,613	1,832	270	145	164	423	893	949

Total	2,045	3,676	4,327	620	428	543	705	1,517	1,677
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Source: CBS, Israel

Israel imports significant amounts of cereals, bovine meat, oilseeds, sugar, tobacco, fish, and tropical products (i.e., cocoa). Imports reflect the country's deficiency in farm acreage. Imports of cereals and sugar represent 90 percent of domestic use of these commodities; imported beef accounts for over 50 percent of local consumption.

U.S. Ag Exports: Ninety percent of U.S. agricultural exports by value enter Israel duty- and quota-free due to Israel's adherence to its WTO, U.S.-Israel FTA, and ATAP commitments. Unfortunately, the remaining U.S. agricultural export tariff lines (largely value-added consumer products) continue to face a complicated tariff-rate quota (TRQ) system and high tariffs. Israel's TRQ system is non-transparent. Problems include the lack of quota fill-rate and license allocation data. Israel fails to provide information on small, non-commercially viable quota quantities. It also holds back issuing within-quota licenses.

Under the 2004 ATAP agreement, Israel committed to improving the administration of TRQs, including engaging in regular bilateral consultations. However, the mid-year reallocation of unutilized quotas by the Israeli Quota Administration has so far failed to fully solve this problem. Extended ATAP agreement negotiations aim to address this U.S. concern.

Coarse grains and oilseeds, dried nuts, fruits, and prepared food products remain the key U.S. agricultural exports to Israel. Milling wheat, soybeans, and feed grains enter Israel duty-free. The U.S.-Israel FTA requires that most U.S. dried nuts and fruits located in Chapter 8 of the Harmonized Commodity Description and Coding System (HS) enter duty-free or under reduced tariff rates. However, the TRQs on almonds, raisins, and prunes sharply limit imports. Shelled walnuts and pistachios from the United States enjoy duty-free access; pistachios from other sources pay a 36 percent import duty. Most of the pistachios in the Israeli market are now from the U.S. Non-U.S. shelled walnuts are assessed a \$500/tm levy plus a 20 percent duty (16.5 percent for EU product).

Exports of U.S. prepared vegetables, fruits and nuts and miscellaneous edible preparations, continue to trend upward. Israel bans the imports of U.S. beef due to bovine spongiform encephalopathy (BSE) and Kashrut Law restrictions. Israel's Veterinary Services published in January 2011 its new BSE regulations. The new regulations and new health certificates for beef meat and live cattle for fattening are in advanced phase of discussions. Quota and SPS Restrictions however remain on U.S. dairy products,

fresh fruits and vegetables, wine, and processed foods all important to the Israeli agricultural sector.

Section IV: Best Product Prospects

Israel is a net food importer. It is a good market for U.S. food exports, such as beef meat, dried fruits, nuts, fresh apples and pears, cereal products, cheese, powdered milk, butter and milk spreads, frozen and canned fruit and vegetable, food ingredients, fruit juices (orange, grapefruit, tomato and apple, in containers >100 kg) and other prepared food products.

Demand for Healthy/natural foods is increasing, such organic food, reduced in fat, lower salt, low in sugar, more grains and fibers or that contain added vitamins, probiotics and health benefits. Niche products that target a specific health issue i.e. diabetes, celiac disease (gluten free food). Pet food and pet care products in Israel saw positive growth rates in recent years. The strongest trend in the pet food market has been the establishment of premium and super-premium price bands. Imported products account for 50 percent of value sales. The number of Israeli households that have a pet is expected to grow. Awareness of pet health and their well-being is steadily increasing in Israel and will lead to a higher volume of sales of pet foods, mainly the premium brands and pet care products.

Section V: Key Contacts and Further Information

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Ministry of Health

12 Ha'arba'a St.
64739, Tel Aviv, Israel
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Tel: 972-3-6270100
Fax: 972-3-5619549
Contact: Import Officer, Mrs. Ruthy Shinberg: Tel: 972-3-6270107

Israel Veterinary and Animal Health Services (IVAHS)

Web Site: <http://www.vetserveng.moag.gov.il/vetserveng>
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Import & Export Veterinary Division

Chief Import & Export Veterinary Officer Dr. Med. Vet. Shlomo Garazi

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Major Newspapers and Business Journals

- English Language:

Ha'aretz (daily English version) <http://www.haaretz.com>

The Jerusalem Post (daily newspaper) <http://www.jpost.com>

Globes <http://www.globes.co.il/serveen/>

The Marker <http://www.themarker.co.il/eng/>

More Useful Web Sites

Agriculture in Israel

<http://www.moag.gov.il/agri/files/agriculture/index.html>

The Agricultural Research Center of Israel - <http://www.agri.gov.il/>

Ministry of Agricultural and Rural Development - <http://www.moag.gov.il/english/>

The Centre for International Agricultural Development Cooperation (CINADCO)

<http://www.cinadco.moag.gov.il/cinadco>

Faculty of Agricultural, Food and Environmental Quality Sciences

<http://www.agri.huji.ac.il/index-eng.html>

Central Bureau of Statistics - <http://www.cbs.gov.il/engindex.htm>

Bank of Israel - <http://www.bankisrael.gov.il/firsteng.htm>

USDA'S Global Agriculture Information Network (GAIN) -

<http://gain.fas.usda.gov/Pages/Default.aspx>